

The Legislative Fiscal Division

Presents:

Profile of...

Department of Revenue

State of Montana



Agency Profile

This agency profile will discuss...

- structure and funding
- primary functions and
- historical expenditures

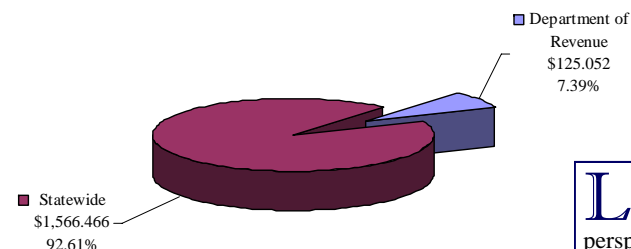
The profile also includes information on how decisionmakers can effect change in the agency's expenditures along with a listing of pertinent statistics. For an explanation of terms used in this profile, consult the "Background on the Agency Profiles" at: <http://leg.mt.gov/css/fiscal/default.asp>

Sept. 2006

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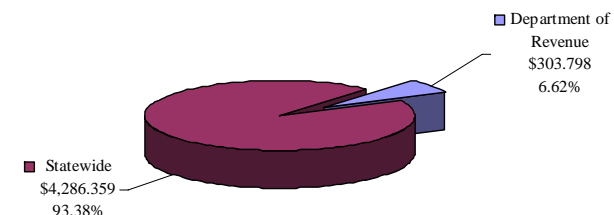


General Fund Statewide Comparison
FY 2006 (In Millions)



Let's begin by putting the agency's size in perspective by comparing it to state government as a whole.

Total Funds Statewide Comparison
FY 2006 (In Millions)



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Legislative Fiscal Division

www.leg.mt.gov/css/fiscal

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Section A
General Government & Transportation



What the Agency Does

The Department of Revenue administers state taxes except for gasoline and motor fuel taxes that are administered by the Department of Transportation. The department:

- Administers and enforces Montana's tax laws
- Administers the Montana Alcoholic Beverage Code
- Enforces the Montana Cigarette Sales Act

The department collects and distributes revenue from and enforces regulations for over 30 state taxes and fees. The department also regulates the sale and distribution of alcoholic beverages in the state. In doing so, the department buys, imports, stores, sells, and delivers liquors to agency liquor stores.

Total FY 2006 FTE: 615.53 FTE all sources of authority (612.03 FTE HB 2, 3.50 FTE proprietary)



How Services Are Provided

In order to administer the state taxes under its purview, the department is organized into a Director's Office and five divisions with the following functions:

- **Director's Office** supports the agency's director and is composed of four work units. The basic function for each unit is (39.98 FTE all funded in HB 2):
 - **Legal Services** supervises the overall legal efforts of the department, which includes rules, policies, bankruptcy, disclosure officer and the Office of Dispute Resolution
 - **Tax, Policy and Research** is responsible for the preparation of legislative fiscal notes that affect revenue, the analysis of legislative proposals affecting the department, and department economic data and tax compliance analysis



Statewide Factors With Impact

In addition to the factors above, a number of factors common to many agencies will also impact changes in expenditures over time.

- All general factors impacting overall personal services costs such as level of the pay plan and benefits due to personal services accounting for 8.2 percent of total expenditures for all types of spending authority in this agency



Statutory References

The primary statutory references defining duties and responsibilities of the department are found at the following locations.

2-15-1301, MCA - Department of Revenue -- Head
15-1-201, MCA - Administration of Revenue Laws
Title 15, MCA - Taxation



How the Legislature Can Effect Change



In order to change expenditure levels and/or agency activity, the legislature must address one or more of the following basic elements that drive costs.

Tax policy changes – tax policy changes impact staff workload and costs associated with tax administering systems. The legislature can impact costs to administer and enforce state tax laws by influencing the number and type of taxes administered and the citizenry impacted by the taxes. It can impact tax administering and enforcement costs by affecting the complexity and frequency of tax policy changes. Tax policy changes also impact costs to implement, modify, and maintain computer systems used to administer taxes.

Revenue distribution – revenues collected by the department are distributed according to statutory requirements. The legislature can impact the costs to administer the distribution of revenues by influencing the statutory requirements for the frequency and complexity of revenue distributions and by the number of distribution requirement changes the department must implement. With 63.6 percent of the department budget authorized through statutory appropriations to distribute revenue for local assistance payments, the legislature can influence a significant portion of the department budget through revenue distribution requirements.

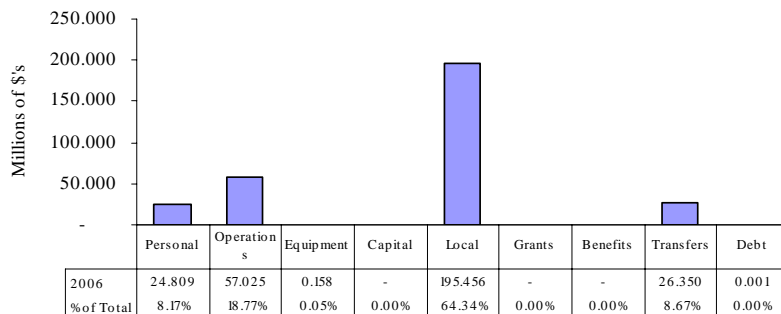


- **Human Resources** manages the personnel activities of the department. The office includes three functional units for: human resources, payroll and benefits, and education and training
- **Executive Office** provides budget analyst, public relations and administrative support for the department
- **Information Technology** provides application development and support services, as well as network services in the areas of data, desktop, information security and help desk support. The division also processes tax returns and payments for the department and for state agency partners (99.45 FTE all funded in HB 2)
- **Citizens Services and Resource Management** provides service to Montana citizens, businesses, and nonresident taxpayers through a call center, one-stop licensing, forms design, and other taxpayer services. The division also provides service and support to the department in the areas of accounting, purchasing, and facilities and asset management. (25.00 FTE all funded in HB 2)
- **Liquor Control** administers the state's alcoholic beverage code, which governs the control, sale, and distribution of alcoholic beverages. The division includes liquor distribution and liquor licensing. (25.00 FTE all funded in HB 2)
- **Business and Income Taxes** oversees audits and verifies compliance with Montana tax law for all state taxes, oversees state revenue collection activity, and completes appraisals and assessments of industrial and centrally assessed property. The division also seeks to return unclaimed property (lost money and other properties) to its rightful owners. (123.75 FTE funded in HB 2, 3.50 FTE proprietary)
- **Property Assessment** is responsible for the valuation and assessment of real and personal property throughout the state for property tax purposes. The division is comprised of a central office located in Helena and six regional areas. There is a local Department of Revenue office located in each county seat within the regional areas. (298.85 FTE all funded in HB 2)



The Department of Revenue provides services and functions through the employment of state FTE, who conduct property valuations and assessments, audit taxpaying entities, operate the state liquor warehouse, process tax payments, and administer the day-to-day support functions behind the department processes. The department employs contracted information technology consultants to augment state FTE in support of agency information management systems.

**Department of Revenue History
All Funds FY 2006**



How Services Are Funded

Department of Revenue expenditures are funded with a combination of general fund, state special revenue, federal special revenue, and proprietary funds. General fund expenditures were \$125.0 million, or 41.2 percent of total funds, in FY 2006. The FY 2006 general fund expenditures were nearly double the \$62.6 million expended in FY 1996, but down from the 51.4 percent of FY 1996 total fund expenditures.

The growth of general fund FY 1999 to FY 2002 is primarily due to the changes in local government assistance attributed to property tax revisions of SB 184 in the 1999 Legislature and the local government funding revisions of HB 124 in the 2001 Legislature.

Agency Functions, State Purposes, & Customers Served

The agency is structured to perform certain functions in support of general state government purposes.

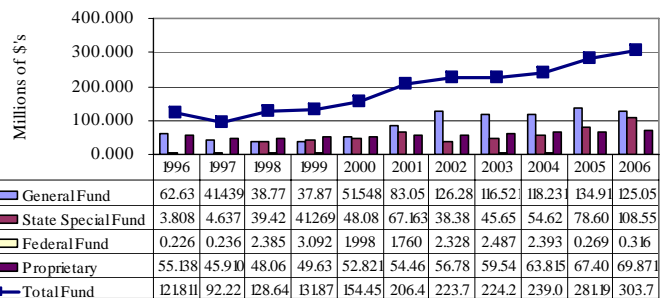
The following lists the major functions, purpose of provision of the functions, and primary customers served.

State Purpose	Major Agency Functions	Customers
<i>Infrastructure-Governmental and Physical</i>	Revenue distribution	Taxpayers, state government, local government, citizens
	Property valuation	Property owners, state government, local government
	Tax compliance	Taxpayers, state government, local government
	Agency management and administration	Taxpayers
	Information technology support	Agency programs
	Liquor operations	Liquor wholesales and retailers



In FY 2006, general fund is \$125.0 million or 3.2 times the FY 1998 amount of \$38.8 million. In FY 2006, state special revenue, at \$108.6 million, is 2.8 times and proprietary fund, at \$69.9 million, is 1.5 times their respective FY 1998 amounts of \$39.4 million and \$48.1 million.

Department of Revenue Funding History



Reasons for Expenditure Growth/Change

The decline for general fund from FY 1996 to FY 1998 is attributed to two one-time events:

- HB 171 in the 1995 Legislature refunded \$21.5 million general fund derived from excess tax collections
- HB 497 in the 1995 Legislature provided property tax refunds of \$5.3 million in FY 1996 and \$5.0 million in FY 1997

The growth of state special funds from FY 1997 to FY 1998 is due entirely to an accounting change in which expenditures from several tax types were accounted for with agency funds during the 1997 biennium but accounted for with state special funds from FY 1998 and beyond. Agency funds are not included in the historical expenditure chart and accounted for \$47.4 million in FY 1996 and \$47.8 million in FY 1997, but the same tax types totaled \$37.9 million in FY 1998 when expended as state special funds. The spike of state special funds in FY 2001 is due primarily to a spike in gas and oil tax collections attributed to a tax dispute settlement with Shell Oil.



State special revenue expenditures were \$108.5 million, or 35.7 percent of total funds, in FY 2006. The FY 2006 state special revenue expenditures were nearly 28.5 times the \$3.8 million expended in FY 1996 and up from the 3.1 percent of FY 1996 total fund expenditures. State special revenue is dominated heavily by distributions of Montana oil production tax revenues to local governments, which stood at \$94.3 million in FY 2006 and 31.1 percent of total funds. Distributions of other taxes, such as tobacco and cigarette, beer and wine tax, and various mineral and natural resources taxes comprise most of the remaining state special revenue expenditures.



Federal special revenue expenditures were \$0.3 million, or 0.1 percent of total funds, in FY 2006. The FY 2006 federal special revenue expenditures compare closely to the \$0.2 million expenditures in FY 1996 and down from the \$2.0 million to \$3.0 million that occurred from FY 1998 to FY 2004, when the department was responsible for collecting unemployment insurance. Federal special revenue is for activities associated with work on mineral royalty audits and new hire administration.

Proprietary funds, primarily from liquor sales activities, accounted for \$69.9 million of FY 2006 expenditures or 23.0 percent of total funding. Proprietary funds are up from the \$55.1 million in FY 1996 but down as a percentage of total funding, which was 45.3 percent in FY 1996.



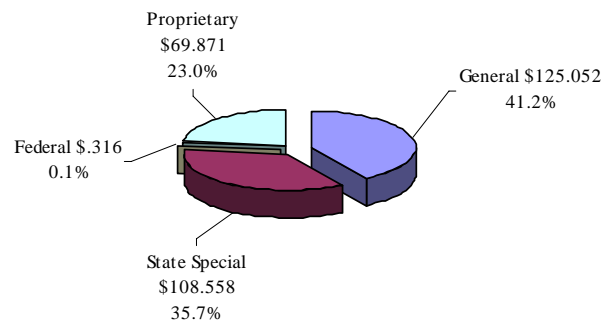


Only 34.9 percent, or \$106.0 million, of expenditures in FY 2006 were funded through appropriations made by the legislature in the general appropriations act or the pay plan bill. Of the amount authorized in temporary appropriations made by the legislature, 63.8 percent or \$67.6 million are made through language appropriations. Language appropriations are dominated by proprietary funds of the Liquor Division for purchasing liquor products for sale and transferring the profits to the appropriate funds as directed by statute.

In addition to language, pay plan, and general appropriations made to the department, statutory appropriations account for \$158.2 million of FY 2006 funding, or 63.6 percent. Statutory appropriations are dominated by distributions of special natural resource tax collections to local governments.



**Department of Revenue Funding History
All First Level FY 2006**



Related Data & Statistics

Element	1996	2006	Significance of Data
Number of income tax returns processed	433,105	473,749 (2003)	Estimate of workload (income tax processing)
Number of income tax returns with refunds	261,034	318,105 (2003)	Estimate of workload (income tax processing)
Number of corporation tax returns processed		35,625 (2003)	Estimate of workload (corporation tax processing)
Number of metalliferous mine producers filing returns	14	4	Estimate of workload (metal mines tax processing)
Number of off-premise liquor licenses issued		1,040	Estimate of workload (liquor license processing)
Number of on-premise liquor licenses issued		2,260	Estimate of workload (liquor license processing)
Number of wholesaler liquor licenses issued		35	Estimate of workload (liquor license processing)
Number of supplier liquor licenses (breweries/wineries) issued		562	Estimate of workload (liquor license processing)
Number of parcels - reappraisal valuation		903,450 (2005)	Estimate of workload (reappraisal valuation)

Source: Biennial Report of the Montana Department of Revenue, July 1, 2002 to June 30, 2004, therefore 2004 is the latest published data available.



Expenditure History

Total fund expenditures have increased from \$128.6 million in FY 1998 to \$303.8 million in FY 2006, or nearly 2.4 times. The comparison is between FY 2006 and FY 1998 instead of FY 1996 because of two main factors:

- Fiscal years 1996 and 1997 general fund expenditures are include one-time income and property tax relief payments
- Fiscal years 1996 and 1997 state special revenue are understated because prior to FY 1998 agency funds were used to records transfers of several tax types that, following an accounting change are shown as state special revenue in FY 1998 and beyond.